Healthcare industry update.

Current Trends in Mergers & Acquisitions
HFMA Central OH Chapter – Nov-22, 2013
Introductions

Jerry Luebbers
Healthcare Consulting Senior Manager
M&A Transaction Support Team
Our Healthcare Service Capabilities

AUDIT & ACCOUNTING
Audits, reviews, & compilations
Single audit federal programs/HUD
Benefit plan audits & consulting

BUSINESS ADVISORY SERVICES
Enterprise risk services
Market studies
Financial feasibility studies
Financial modeling
Debt capacity analysis
Certificate of need
Valuation
Due diligence
Fraud investigations
Strategic & business planning
Commercial real estate advisory*:
Owner representation; site search/evaluation/real estate transactions/
M&A; existing facility assessment; project planning/implementation;
occupancy/move-in logistics

SENIOR CARE
CLINICAL CONSULTING
Clinical reimbursement — RUG IV optimization
Certification/compliance strategies
Quality assurance programs
Mock surveys
Continuing education programs
Survey turnaround projects
MDS 3.0 accuracy & compliance
RAC readiness reviews

OPERATIONS EFFECTIVENESS
Operations assessments
Continuous process improvement
Medicare management reports
Organization design
Labor productivity analysis
Budget analysis by department

FINANCIAL ADVISORY SERVICES
Wealth management
Institutional investment consulting*
Insurance services*
Trust services*
Business transition planning

REIMBURSEMENT SERVICES
Reimbursement analysis
Rate-setting projections
Cost reporting
Benchmarking analysis

TAX
Entity structure consulting
Tax planning, preparation, & review
State & local tax reviews
Cost segregation studies
Individual tax planning or compliance

TECHNOLOGY
Security assurance
ERP system implementation
Internal controls review
Decision support software, installation, & consulting
Infrastructure assessment, planning, selection, & design
Software assessment, planning, & selection
Communications & networking
Contract negotiations

* These services are provided by Plante Moran affiliates.
Today’s Learning Objectives

This presentation will focus on the following:

- Update on Current National and Regional M&A Activity
- Key Drivers Behind Recent M&A Activity
- How to Identify and Respond to Key Risks and Opportunities
- How to Identify and Quantify Potential Costs and Cost Savings
Recent Hospital Merger News

Tenet Healthcare Corp. acquires Vanguard Health Systems – *Modern Healthcare*

Beaumont Health System and Henry Ford Health System call off plans to merge – *Crain’s Detroit Business*

Community Health Systems of Tennessee and Health Management Associates of Florida will combine – *The New York Times*

Trinity Health and Catholic Health East complete merger – *Crain’s Detroit Business*

UC Irvine and MemorialCare Health System agree to partner, not merge – *Los Angeles Times*

Mount Sinai Medical Center to buy the parent of Beth Israel Medical Center and St Luke’s and Roosevelt Hospitals – *The New York Times*
Recent Hospital Merger News in Ohio

McCullough-Hyde Hospital Seeks Affiliation with Larger Health System – *Becker Hospital Review*

Catholic Health Partners to acquire Northeast Ohio Operations of Kaiser Permanente – *Cincinnati Business Courier*

OhioHealth to acquire O’Bleness Health System – *Becker Hospital Review*

University Hospitals, Parma Community General Hospital to merge – *Cleveland.com*

TriHealth acquires Wellington surgeons – *Cincinnati.com*

Premier Health/Good Samaritan Hospital-Dayton completes acquisition of Dayton Heart Hospital – *PremierHealth.com*

Hospital chains keep getting bigger – *The Washington Post*
PLANTE MORAN
100% jerk-free*

*Almost. C'mon, no one's perfect.
Healthcare Services


<table>
<thead>
<tr>
<th>Service</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-Term Care</td>
<td>188</td>
<td>160</td>
</tr>
<tr>
<td>Hospital</td>
<td>94</td>
<td>80</td>
</tr>
<tr>
<td>Doc Groups</td>
<td>68</td>
<td>120</td>
</tr>
<tr>
<td>Labs, MRI, Dialysis</td>
<td>45</td>
<td>15</td>
</tr>
<tr>
<td>Home Health &amp; Hospice</td>
<td>35</td>
<td>30</td>
</tr>
<tr>
<td>Managed Care</td>
<td>27</td>
<td>30</td>
</tr>
<tr>
<td>Rehab</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Behavior Health</td>
<td>17</td>
<td>10</td>
</tr>
<tr>
<td>Health Sciences</td>
<td>122</td>
<td>90</td>
</tr>
</tbody>
</table>
What Do You Think is Driving Hospital M&A?
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

**AFFORDABLE CARE ACT**
- Where Does Organization Fit in the Care Continuum?
- Sophistication of Executive Team and Core Service Leaders
- Impact on Strategy and Ability to Execute Strategy
- How Do You Plan to Transition to the New System of Delivery?
- Population Management

**MERGERS and ACQUISITIONS**
- Meaningful Use
- ICD-10
- Triple Aim – Increase Access to Care, Improve Quality, and Decrease Costs
- Consumer Driven Healthcare
- Sequester and Other Changes in Reimbursement
- Readmissions
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- **Economies of Scale**
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

ECONOMIES OF SCALE

- Commercial Contract Negotiation
- Impact on Employers and Patients with Insurance
- Revenue Cycle
- Cost Savings Synergies
- Labor Productivity

- Supply Chain/GPOs
- Blood Bank
- Malpractice Insurance
- Information Technology

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

ACCESS TO PHYSICIANS

- Expand Service Capabilities
- Referral Flow
- Population Management
- Leadership Capabilities
- Physician Alignment
- Community Needs Assessment
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
  - Sustaining Growth
  - Declining Net Revenue per Patient
  - Payor Transparency
  - Access to Capital
- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

SUSTAINING GROWTH

- Out-Migration
- Referral Flow
- Population Management
- Medicaid Expansion
- Community Needs Assessment
- Number of Baby Boomers reaching Medicare eligible or dual eligible status
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital
- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

DECLINING NET REVENUE PER PATIENT

- Shift from Inpatient Setting to Outpatient Setting
- Reimbursement Cuts/Sequestration
- Health Insurance Exchanges
- Payor Mix
- Downstream Revenue
- RAC
- Readmissions
- Not All Declines Are Bad (Service/Value)
Drivers Behind Mergers and Acquisitions

• Affordable Care Act
• Economies of Scale
• Access to Physicians
• Sustaining Growth
• Declining Net Revenue per Patient
• Payor Transparency
• Access to Capital

• Bend The Healthcare Spend Curve/Cost Reduction Pressures
• Increased Regulation
• EHR Pooling of Resources
• Increased Bargaining Power with Suppliers
• Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

ACCESS TO CAPITAL

- Key Performance Indicators
- Days Cash on Hand
- Leverage Ratios
- Age of Plant
- Facility Cap Ex Spend
- IT Cap Ex Spend
- Historical Financial Results
- 3 to 5 Year Forecast

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

BEND THE HEALTHCARE SPEND
CURVE/COST REDUCTION PRESSURES

- Waste in System
- Value Based Model
- Readmissions
- ER Usage
- Wellness Programs
- Domestic Utilization
- Brand to Generic Shift

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- **Increased Regulation**
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

INCREASED REGULATION

- Accountable Care Organizations
- Health Insurance Exchanges
- Reimbursement Cuts
- Penalties for Non-Compliance or Poor Performance
- Critical Access Hospital Designation
- Need to Increase Lobbying Efforts

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- **EHR Pooling of Resources**
- Increased Bargaining Power with Suppliers
- Increased Competition
Drivers Behind Mergers and Acquisitions

EHR POOLING OF RESOURCES

- Software and Equipment Costs
- Access to Appropriately Trained Technical Resources
- Future Lease/Maintenance Commitments
- Staff Required to Support EHR
- Staff Required to Support IT Function Overall
- Ability to Reinvest Capital
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

Increased bargaining power with suppliers

- Blood Bank
- Medical Supplies
- Nutrition Services
- Equipment Vendors
Drivers Behind Mergers and Acquisitions

- Affordable Care Act
- Economies of Scale
- Access to Physicians
- Sustaining Growth
- Declining Net Revenue per Patient
- Payor Transparency
- Access to Capital

- Bend The Healthcare Spend Curve/Cost Reduction Pressures
- Increased Regulation
- EHR Pooling of Resources
- Increased Bargaining Power with Suppliers
- Increased Competition

MERGERS and ACQUISITIONS
Drivers Behind Mergers and Acquisitions

INCREASED COMPETITION

- Outpatient Clinics
- Population Management
- Kroger/Walmart “Little Clinics”
- Push for Transparency
- Board Pressure

MERGERS and ACQUISITIONS
Areas of Opportunity & Risk

- Access to Care/Ability to Adjust Referral Patterns
- Volume/Productivity
- Downstream Revenue
- Payer Mix
- Payer Contract Analysis
- Market Knowledge
- Operational/Clinical Compliance
- Revenue Cycle
- Cost Reporting/RAC
- Service Line Profitability
- Compensation and Benefits
- Supply Chain
- Malpractice Coverage

M&A DUE DILIGENCE
Consider Taking a Deeper Dive

Managed Care Contracts Deserve a Closer Look

- Engage a trusted advisor
- Identify common significant payers and high volume procedures
- Compare gross charges and net payments at DRG and CPT code level for similar facilities
- Compare fee schedules at the CPT code level
- Consider how long it will take to negotiate new rates
- Determine potential impact managed care contracts will have on your system post-transaction
- Downstream revenue impact
Consider Taking a Deeper Dive

**Nail Down Compensation Plans**

- Physician productivity (before and after)
- Fee schedules (before and after)
- Payer mix (before and after)
- Figure out special compensation packages in advance – what does the financial picture look like under lower than expected volume and reimbursement?
- Is there a gap between the target’s benefits and your benefits?
- Physician alignment is key
Consider Taking a Deeper Dive

**Identify Cost Synergies**

- Labor productivity
- FTE needs
- Professional services
- Malpractice insurance
- Purchasing power for blood products, general supplies, nutrition services, information technology
Consider Taking a Deeper Dive

Will Future Cap Ex Be Required?

- Electronic Health Records
- Computers and Servers
- Telephone Systems
- New Facility or Additional Space
Other Areas For Consideration

- Culture
- Joint Venture, Partnerships, and Affiliations of Target Entity
- Valuation
- Financial Forecasts
- Taxation
- Legal
Questions?

Jerry Luebbers
Healthcare Consulting Senior Manager
Jerry.Luebbers@plantemoran.com
513.744.4759